

Message Text

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PAGE 01 SEOUL 02378 01 OF 02 250255Z

ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-08 INR-07 LAB-04

NSAE-00 SP-02 STR-04 TRSE-00 FRB-03 OMB-01 L-03

XMB-02 OPIC-03 H-01 AID-05 /053 W

-----250322Z 093385 /45

P R 250205Z MAR 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 2832

INFO USDA WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 SEOUL 2378

USDA FOR OGSM/KOSTEPHENS AND FAS/IMD COTTON W. DAVIS

E.O. 11652: N/A

TAGS: EAGR EGEN KS

SUBJ: COTTON FINANCING

REF: (A) STATE 60850, (B) SEOUL TOFAS 60

SUMMARY: IN RESPONSE TO REF A, THE ROKG AS A GENERAL RULE DOES NOT PERMIT COMMODITY (AS OPPOSED TO CAPITAL EQUIPMENT) FINANCING ON TERMS OVER 180 DAYS. THERE HAVE BEEN SOME LIMITED EXCEPTIONS WHEN TERMS HAVE BEEN COMPARABLE TO THOSE ENFORCED FOR TERM FINANCING FOR CAPITAL EQUIPMENT. THE OTHER EXCEPTION HAS BEEN CCC FINANCING BECAUSE OF ITS UNIQUE FEATURES. WHILE THERE IS SOME CHANCE THE ROKG MIGHT CONSIDER A LIMITED AMOUNT OF COMMODITY FINANCING FROM COMMERCIAL SOURCES IF IT WERE AVAILABLE ON COMPARABLE TERMS, IT IS VERY DOUBTFUL. FAILURE TO PROVIDE CCC FINANCING WOULD THEN ONLY RESULT IN A LOSS OF THE COMMERCIAL ADVANTAGE NOW ACCRUING TO U.S. SUPPLIERS. END SUMMARY.

1. WITH RESPECT TO THE QUESTIONS POSED IN REF A, THE
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PAGE 02 SEOUL 02378 01 OF 02 250255Z

SEVEN-YEAR TERMS TO WHICH THE ENGELHARD MINERALS AND CHEMICAL COMPANY REPRESENTATIVE REFERRED PERTAIN TO THE GENERAL GUIDELINES EMPLOYED BY THE ROKG FOREIGN CAPITAL DELIBERATION COMMITTEE IN APPROVING FOREIGN LOANS. THE CURRENT GUIDELINES, INTER ALIA, SPECIFY THAT SUCH LOANS MUST HAVE A MINIMUM MATURITY OF 7 YEARS, INCLUDING A MINIMUM 2 YEAR GRACE PERIOD, AND THAT THE INTEREST

RATE CANNOT EXCEED THE LONDON INTERBANK OFFER RATE
(LIBOR) PLUS 2 PERCENT.

2. IN PURSUING ITS HIGH GROWTH ECONOMIC DEVELOPMENT
POLICIES, KOREA HAS ALREADY ACCUMULATED AN OUTSTANDING
FOREIGN DEBT (ONE YEAR AND OVER) OF \$7.2 BILLION AND
WILL CONTINUE TO REQUIRE SUBSTANTIAL EXTERNAL FINANCING
FOR SOME TIME TO COME. WITH FOREIGN BORROWING REQUIRE-
MENTS OF THIS MAGNITUDE, CONSIDERATIONS OF PRUDENT
DEBT MANAGEMENT REQUIRE THAT THE ROKG EXERCISE TIGHT
CONTROL OVER FOREIGN BORROWING TO ASSURE THAT THIS
FINANCING IS OBTAINED ON THE MOST FAVORABLE TERMS
AVAILABLE AND THAT IT IS UTILIZED WITH MAXIMUM
EFFICIENCY.

3. WITH THESE CONSIDERATIONS IN MIND, THE ROKG AS A
GENERAL RULE RESTRICTS COMMODITY (AS OPPOSED TO CAPITAL
EQUIPMENT) FINANCING TO A MAXIMUM OF 180 DAYS. MOREOVER,
EVEN THIS FINANCING IS RESTRICTED TO IMPORTS OF RAW MATERIAL
FOR EXPORTS AND CERTAIN OTHER ESSENTIAL COMMODITIES AND
IS SUBJECTED TO CEILINGS AND VARIOUS OTHER GUIDELINES
AS TO TERMS AND CONDITIONS.

4. AGAIN AS A GENERAL RULE, FINANCING ON TERMS OF
OVER 180 DAYS IS LIMITED TO LOANS RELATED TO INVESTMENT
PROJECTS (I.E., IMPORT OF CAPITAL EQUIPMENT, TECHNOLOGY
AND, TO A LIMITED EXTENT, RELATED CASH LOANS FOR WORKING
CAPITAL OR DOWN PAYMENTS). GENERALLY ALL SUCH LOANS MUST
BE SCREENED AND APPROVED BY THE FOREIGN CAPITAL DELIBERA-
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PAGE 03 SEOUL 02378 01 OF 02 250255Z

TION COMMITTEE CHAIRED BY THE ECONOMIC PLANNING BOARD
(EPB) WHICH DETERMINES WHETHER THE LOAN IS CONSISTENT
WITH KOREA'S ECONOMIC DEVELOPMENT OBJECTIVES AND ALSO
ENFORCES GUIDELINES AS TO MINIMALLY ACCEPTABLE TERMS
AND CONDITIONS. THE GUIDELINES REFERRED TO IN
PARA 1 ABOVE ARE THE CURRENT OPERATING GUIDELINES WITH
REGARDS TO TERMS AND CONDITIONS FOR MOST CREDITS
CONSIDERED BY THIS COMMITTEE.

5. EXCEPTIONS TO THESE GUIDELINES ARE OCCASIONALLY MADE
WITH THE APPROVAL OF THE MINISTRY OF FINANCE
(MOF). CURRENT MOF INTERNAL GUIDELINES FOR TERM
FINANCING AS TO THE MAXIMUM PERMISSIBLE SPREADS OVER
LIBOR OR SIBOR (SINGAPORE INTER BANK OFFER RATE) ARE:

	WITH	WITHOUT
	KOREAN BANK	KOREAN BANK
MATURITY	GUARANTEE	GUARANTEE

3-5 YEARS	1 3/4	1 7/8
5-7 YEARS	1 7/8	2.0
OVER 7 YEARS	2.0	2.0

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PAGE 01 SEOUL 02378 02 OF 02 250305Z
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NSAE-00 SP-02 STR-04 TRSE-00 FRB-03 OMB-01 L-03
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LIMITED OFFICIAL USE SECTION 2 OF 2 SEOUL 2378

USDA FOR OGSM/KOSTEPHENS AND FAS/IMD COTTON W. DAVIS

6. IT IS POSSIBLE THAT THESE GUIDELINES WILL ALSO BE ADOPTED BEFORE LONG BY EPB WHICH NORMALLY TAKES ITS GUIDANCE ON THESE MATTERS FROM MOF. LOANS WITH MATURITIES UNDER 7 YEARS WOULD, UNDOUBTEDLY, BE SUBJECTED TO PARTICULARLY CLOSE SCREENING AND WOULD PROBABLY BE LIMITED TO "BUYER CREDITS", MEANING FINANCING WHICH IS RAISED DIRECTLY BY THE KOREAN ENTITY AS OPPOSED TO FINANCING TIED TO SPECIFIC IMPORTS WHERE PACKAGING OF THE LOAN CAN BE USED TO DISGUISE THE REAL COST OF FINANCING.

7. WHILE THESE ARE THE GENERAL RULES, THERE HAVE BEEN SOME OCCASIONAL EXCEPTIONS PERMITTING COMMODITY LOANS WITHIN THE SAME GENERAL FRAMEWORK. THESE EXCEPTIONS HAVE NORMALLY BEEN LIMITED TO CASES WHERE IT IS DETERMINED THAT THE SPECIFIC COMMODITY LOAN IS ESSENTIAL FOR REASONS OF THE SPECIAL CIRCUMSTANCES OF A STRATEGIC INDUSTRY. THE NORMAL GUIDELINES FOR SUCH FINANCING HAVE BEEN THE SAME AS FOR TERM FINANCING FOR CAPITAL EQUIPMENT. THE ROKG WAS MORE INCLINED TO MAKE THESE EXCEPTIONS DURING THE PERIOD OF BALANCE OF PAYMENTS

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PAGE 02 SEOUL 02378 02 OF 02 250305Z

STRAIN OF 1974-75. WITH THE GREATLY IMPROVED BALANCE OF PAYMENTS PERFORMANCE OF 1976, GUIDELINES INTRODUCED IN AUGUST 1976 ARE EVEN TIGHTER ABOUT MAKING ANY EXCEPTIONS FOR COMMODITY LOANS.

8. THE ONE OTHER EXCEPTION IS CCC FINANCING ON 1 TO 3 YEAR MATURITIES. THE RATIONALE FOR PROVIDING THE EXCEPTION FOR CCC FINANCING IS THAT MOF HAS BEEN SATISFIED THAT THIS LIMITED AMOUNT OF COMMODITY FINANCING IN THIS MATURITY RANGE HAS BEEN NECESSARY FOR THE FINANCIAL CIRCUMSTANCES OF THE DOMESTIC INDUSTRIES INVOLVED. THE CCC FINANCING, MOREOVER, PROVIDES A BASIS FOR MAKING AN EXCEPTION TO THE GENERAL POLICY BANNING COMMODITY FINANCING ON OVER 180 DAY TERMS: (1) THAT HAS CLEARLY DEFINED LIMITS; AND (2) THAT OFFERS CREDIT ON THE MOST FAVORABLE TERMS KOREA CAN EXPECT TO OBTAIN.

9. IF, IN FACT, COMMERCIAL CREDIT WOULD NOW BE AVAILABLE ON TERMS EQUIVALENT TO THAT OF CCC, THE ROKG MIGHT BE WILLING TO CONSIDER IT AS AN ALTERNATIVE TO CCC FINANCING. ROKG OFFICIALS, HOWEVER, ARE VERY SKEPTICAL THAT COMMERCIAL SOURCES ARE REALLY WILLING TO OFFER CREDIT ON THOSE TERMS.

10. AVAILABILITY ALONE, MOREOVER, WOULD NOT BE THE ONLY CONSIDERATION. CCC CREDIT HAS ALSO BEEN ATTRACTIVE IN THAT IT PERMITS A VERY EASILY DEFINED EXCEPTION TO THE GENERAL RULE. HAVING HAD PAST UNPLEASANT EXPERIENCE WITH EXCESSIVE BORROWING ON SHORT MATURITIES, THE ROKG WOULD BE VERY HESITANT TO OPEN THE DOOR TO ANY COMMODITY FINANCING THAT CANNOT BE VERY CAREFULLY CONTROLLED. RATHER THAN FACE THAT PROBLEM, IN OUR OPINION, THE ROKG WOULD PROBABLY DECIDE TO ASSIST THE AFFECTED INDUSTRIES IN SOME OTHER FASHION THAT COULD OFFSET THE LIMITED OFFICIAL USE

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PAGE 03 SEOUL 02378 02 OF 02 250305Z

LOSS OF COMMODITY FINANCING OVER 180 DAYS OR ELSE FURNISH THE NECESSARY FINANCING FROM ITS OWN FOREIGN EXCHANGE RESOURCES IN THE INTERESTS OF BETTER CONTROL. UNDER EITHER OF THOSE ALTERNATIVES, U.S. SUPPLIERS WOULD LOSE THE COMMERCIAL ADVANTAGE THEY NOW ENJOY BECAUSE OF THE AVAILABILITY OF CCC FINANCING.
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Disposition Case Number: n/a
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Disposition Date: 22 May 2009
Disposition Event:
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Secure: OPEN
Status: NATIVE
Subject: COTTON FINANCING
TAGS: EAGR, EGEN, EPAP, KS
To: STATE
Type: TE
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